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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1953

No. 451

ALEJANDRO D. LLANOS, et al.,
Petitioners,

vs.

UNITED STATES OF AMERICA,
Respondent.

PETITION FOR WRIT OF CERTIORARI
to the United States Court of Appeals
for the Ninth Circuit
AND
BRIEF IN SUPPORT THEREOF.

HYMAN M. GREENSTEIN,
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Subject Index

	Page
Petition for Writ of Certiorari	1
The indictment, etc.	2
Summary and short statement of the matter involved	4
(a) Preliminary facts	4
(b) Evidence as to dealing in securities	4
Jurisdictional statement	5
Questions presented	5
Why the writ should be granted	6
Prayer for issuance of the writ	7
Brief in Support of Petition for Writ of Certiorari	11
The opinions and judgments of the courts below	11
Jurisdiction	11
Statutes involved	12
Statement of the case	13
Specification of errors relied upon	14
Argument	15
I. The instruments admitted into evidence do not constitute "securities" within the meaning of the Securities Act of 1933	15
Legislative history of Securities Act	20
II. Notes given in exchange for money to be bet on "fixed" sporting events do not come within the purview of the Securities Act of 1933	24
III. There is absolutely no evidence that petitioners were engaged in the sale of securities	25
IV. There is no evidence in the record that any person or persons invested money on the basis of the false representations alleged in the indictment	28
V. The rulings on the admissibility of the evidence were erroneous	29

Page

A. The Court of Appeals is in error in holding that U. S. Exhibits Nos. 61, 62 and 63 were properly admitted in evidence 29

B. The Court of Appeals is in error in holding in effect that the other documentary evidence was properly admitted in evidence 30

Conclusion 31

Table of Authorities Cited

Cases	Pages
Cecil B. De Mille Prod'ns v. Woolery (9th Cir.), 61 F. (2d) 45 (1932)	16
Courtland Specialty Co. v. Commissioner of Internal Revenue, (2nd Cir.), 60 F. (2d) 937	16
L. & E. Stirn v. Commissioner, (2nd Cir.), 107 F. (2d) 390 (1939)	16
Lloyd-Smith v. Commissioner, 116 F. (2d) 642 (1941)	16
Pacific Public Service Co. v. Commissioner (9th Cir.), 154 F. (2d) 713	17
Pinellas Ice & C. Co. v. Commissioner, 287 U.S. 462, 77 L.ed. 428	16
Statutes	
15 U.S.C., Section 77a	18
15 U.S.C., Section 77b	12, 16, 18, 19
15 U.S.C., Section 77b(1) (Securities Act of 1933, Section 2(1))	15, 19, 24
15 U.S.C., Section 77q(a)(1) (Securities Act of 1933, Section 17(a)(1))	2, 12, 13
18 U.S.C., 371 (Criminal Code, Conspiracy)	3, 13
18 U.S.C., 1341 (Criminal Code, the Mail Fraud Act, Section 215)	2, 13
28 U.S.C., 1254(1)	5, 12
Texts	
50 Am. Jur., 258, Section 269	18
Crawford on Statutory Construction, page 288, Section 177	20
2 Sutherland on Statutory Construction (3rd ed.):	
Page 487, Section 5004	20
Page 489, Section 5005	23
Miscellaneous	
House Report No. 85	23
House Report No. 5480	23

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PETITION FOR WRIT OF CERTIORARI
to the United States Court of Appeals
for the Ninth Circuit.

To the Honorable Earl Warren, Chief Justice of the United States, and to the Honorable Associate Justices of the Supreme Court of the United States:

Alejandro D. Llanos, Mrs. Salome V. Llanos, Honofre A. Andrada, Antonio L. Bacilio, Dionicio Flores, Aquilino S. Galiza, and Rogilio Oducayen, petition

that a writ of certiorari issue to review a judgment entered against them on September 4, 1953 by the United States Court of Appeals for the Ninth Circuit, in a cause pending in that Court, numbered and entitled, "No. 13,479, *Alejandro D. Llanos, et al., Appellants, v. United States of America, Appellee.*"

The said judgment affirms a judgment of conviction and sentence of 5 years and five days imprisonment and $10,000 fine imposed upon petitioner Alejandro D. Llanos, with lesser terms and fines imposed upon the other petitioners, on October 10, 1951, by the United States District Court for the District of Hawaii, the Honorable Delbert E. Metzger, presiding.

Said judgment and convictions were for alleged violations of the Securities Act of 1933, the Mail Fraud Act and the Conspiracy section of the Criminal Code.

THE INDICTMENT, ETC.

On April 2, 1951, an indictment was returned in the United States District Court for the District of Hawaii (Criminal No. 10,426) charging petitioners (and two others, since discharged and not parties to this appeal) with violations of the laws of the United States, to wit:

13 Counts of violation of Section 17(a)(1) of the Securities Act of 1933, 15 U.S.C. 77 q(a)(1);

6 Counts of violation of Section 215 of the Criminal Code, the Mail Fraud Act, 18 U.S.C. 1341; and

1 Count, with 9 overt acts of violation of the Criminal Code, the Conspiracy section, 18 U.S.C. 371. (R. 3-30.)

Simply stated, the indictment charges petitioners with devising a fraudulent scheme to defraud persons in the investment of securities; in the use of fraudulent representations to induce the investment in said securities; and in the use of the mails and communications in execution thereof.

Following trial, jury waived, petitioners were found guilty of 17 of the 20 counts.

Petitioners thereupon filed a motion in arrest of judgment contending in the main that none of the instruments admitted into evidence constituted "securities" within the meaning and prohibition of the Securities Act of 1933. (R. 38.) This motion was denied and the petitioners sentenced to various terms of imprisonment and fines. With the exception of Mrs. Llanos, all petitioners are presently in custody.

Appeal was duly perfected and taken to the United States Court of Appeals for the Ninth Circuit, which overruled the contentions of petitioners and affirmed the judgment of the Court below.

SUMMARY AND SHORT STATEMENT OF THE MATTER INVOLVED.

(a) Preliminary facts.

Alejandro D. Llanos and other petitioners were engaged in borrowing various sums of money from the Filipino community in Hawaii for various purposes.

In connection with the sums borrowed various types of receipts or notes were given the persons who loaned moneys. Witnesses who were called at the trial testified that they loaned the moneys on a "fixed" volley-ball game; or for such reasons as personal loans; tailoring bill; to help Llanos pay his taxes; to help Llanos pay his lawyer; for medical bills of Llanos; for travelling expenses of Llanos and his party; or simply because they were friends of Llanos or others.

With the exception of those loans made on "fixed" games which we contend do not come within the purview of the Securities Act, none of the witnesses testified that he or she were investing in anything or buying anything.

(b) Evidence as to dealing in securities.

During the course of the trial the government, over objection introduced into evidence numerous exhibits as "securities."

Three stacks of notes (being Government Exhibits Nos. 61, 62 and 63) totalling 1112 notes were admitted into evidence over objection of petitioners even though there was no evidence that any of the notes had been delivered to anyone and though there was no

evidence tying up any of these notes to any persons loaning moneys or investing in anything.

Other notes or acknowledgements of indebtedness were admitted into evidence without any affirmative evidence that the moneys represented thereby had been loaned as a result of any misrepresentation, fraudulent or otherwise.

JURISDICTIONAL STATEMENT.

The Supreme Court has jurisdiction to review the judgment under 28 U.S.C. 1254 (1).

QUESTIONS PRESENTED.

This appeal presents the following questions for consideration:

1. Is any note or receipt, regardless of form or maturity date, a "security" within the meaning and prohibition of the Securities Act of 1933?

2. Assuming a scheme to defraud, does proof of making loans for an immediate lawful purpose constitute proof of a violation of the Securities Act of 1933?

3. Do loans made and notes given in exchange therefor, for the express purpose of betting on a "fixed" volleyball game, come within the purview of the Securities Act of 1933?

4. Can notes be properly admitted in evidence where they are not tied up to any persons loaning any money in a prosecution for selling and dealing in securities in pursuance to a scheme to defraud?

5. Assuming that the "investing" of moneys on a "fixed" sporting event does not come within the purview of the Securities Act of 1933, can a conviction for devising a scheme to defraud, making fraudulent representations, and inducing persons to invest and purchase securities in pursuance of said scheme and using the mails in connection therewith be sustained, without a single bit of evidence that any person was investing in anything or buying anything?

6. Assuming that the "investing" of moneys on a "fixed" sporting event does not come within the purview of the Securities Act of 1933, can a conviction for devising a scheme to defraud, making fraudulent representations, and inducing persons to invest and purchase securities in pursuance of said scheme and using the mails in connection therewith be sustained, without a scintilla of evidence that any of the representations were employed in furtherance of said scheme?

WHY THE WRIT SHOULD BE GRANTED.

This appeal fairly poses the question as to what type of instrument constitutes a "security" within the meaning and prohibition of the Securities Act of 1933.

Is any note or receipt a "security"? Or must the instrument be one that is generally known to be a "security" as the term is understood in the investment world?

Do persons who put up money on a "fixed" volley ball game and get notes or receipts therefor come within the umbrella of protection of the Securities Act of 1933? Are such transactions dealing in the "sale of securities" within the meaning and prohibition of the Securities Act of 1933?

These are important questions of federal criminal law which have not been, but which should be, interpreted and adjudicated by this Honorable Court.

Moreover, the punishment in this case is more serious than first appears. Most of the petitioners are aliens and subject to deportation.

PRAYER FOR ISSUANCE OF THE WRIT.

Wherefore, petitioners pray that this Court issue its writ of certiorari directed to the United States Court of Appeals for the Ninth Circuit commanding said Court to certify and send to this Court on a day certain, to be therein designated a full and complete transcript of the record and proceedings of the cause numbered and entitled in said Court "No. 13,479, Alejandro D. Llanos, et al., Appellants v. United States of America, Appellee," to the end that said cause may be reviewed by this Court as provided by

law, that said judgment of said Court of Appeals be reversed and that your petitioners have such other and further relief in the premises as may seem just.

Dated, Honolulu, Hawaii,
October 28, 1953.

Respectfully submitted,
HYMAN M. GREENSTEIN,
Attorney for Petitioners.

CERTIFICATE OF COUNSEL

I hereby certify that I am a member of the bar of the Supreme Court of the United States and that I am counsel for the petitioners in the above entitled cause and that, in my judgment, the foregoing petition is well founded in point of law as well as in fact and that said petition is not interposed for delay.

Dated, Honolulu, Hawaii,
October 28, 1953.

HYMAN M. GREENSTEIN,
Attorney for Petitioners.

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OCTOBER TERM, 1953

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Respondent.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

THE OPINIONS AND JUDGMENTS OF THE COURTS BELOW.

The judgment of the trial Court was rendered and filed on October 10, 1951. (R. 42-55.)

The decision of the Court of Appeals was rendered and filed on September 4, 1953. (R. 1331.)

The judgment of the Court of Appeals was entered on September 4, 1953. (R. 1338.)

JURISDICTION.

The jurisdiction of this Court is invoked under Title 28 U.S.C., Section 1254(1).

The basis on which it is contended this Court has jurisdiction is that an important rule of federal criminal law is involved. Two sections of federal statutes should receive interpretation by this Court. What constitutes a "sale of securities", and just what the term "security" means are important questions of federal criminal jurisprudence which have not, but should, be interpreted by this Court.

STATUTES INVOLVED.

15 U.S.C. 77q(a)(1), upon which the first 13 counts were based, reads as follows:

> "Sec. 77q. Fraudulent interstate transactions.
>
> (a) It shall be unlawful for any person *in the sale of securities* by the use of any means or instruments of transportation or communication in interstate commerce, or by use of the mails, directly or indirectly—
>
> (1) to employ any device, scheme or artifice to defraud." (Italics added.)

The term security is defined in Section 77b of Title 15 U.S.C. as follows:

> "Sec. 77b. Definitions.
>
> (1) The term 'security' means any note, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any

profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, *or, in general, any interest or instrument commonly known as a 'security'*, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, warrant or right to subscribe to or purchase, any of the foregoing." (Italics added.)

STATEMENT OF THE CASE.

Petitioners were convicted on 12 counts of violating Section 17(a)(1) of the Securities Act of 1933, 15 U.S.C. 77q(a)(1); 5 counts of mail fraud, 18 U.S.C. 1341; and on one count of conspiring to commit the foregoing crimes, 18 U.S.C. 371.

The indictment alleges a scheme whereby petitioners would obtain money for their own use by making various false representations. Among the false representations alleged were the following: that the money would be bet on a "fixed" volleyball game; that a company they represented had over $6,500,000 in a bank; and that certain of the petitioners were officers in a large shipping company.

Petitioners contend that persons who put up money to be bet on a "fixed" sporting event do not come within the protection or purview of the Securities Act of 1933; and that while the petitioners may have been

guilty of some crime or crimes for engaging in this activity, it was not the crime charged, to-wit: violation of the *Securities Act.*

Your petitioners further contend that not one person testified that he or she loaned any money on the basis of any of the representations charged in the indictment and that each loan testified to in evidence was for an immediate legal purpose (except in the instances of the betting on "fixed" games).

It is also contended that petitioners were not engaged in the "sale of securities" within the meaning and prohibition of the Securities Act of 1933.

SPECIFICATION OF ERRORS RELIED UPON.

1. The opinion of the Court of Appeals is in error in holding that the instruments admitted into evidence in the District Court constituted "securities" within the meaning of the Securities Act of 1933.

2. The opinion of the Court of Appeals is in error in holding that soliciting moneys to bet on "fixed" sporting events and giving notes or receipts therefor comes within the purview or prohibition of the Securities Act of 1933.

3. The opinion of the Court of Appeals is in error in holding that the evidence supports the finding that petitioners were engaged in the "sale" of securities.

4. The opinion of the Court of Appeals is in error in holding in effect that the evidence supports the find-

ing that any person or persons loaned or invested moneys on the basis of any of the false representations alleged (with the exception of the transactions as to "fixed" games which we contend do not come within the purview of the Act).

5. The opinion of the Court of Appeals is in error in sustaining the trial Court's rulings on the admissibility of the documentary evidence.

ARGUMENT.

I. THE INSTRUMENTS ADMITTED INTO EVIDENCE DO NOT CONSTITUTE "SECURITIES" WITHIN THE MEANING OF THE SECURITIES ACT OF 1933.

It is the position of your petitioners that none of the hybrid notes, receipts, investment contracts (so-called), mutual agreements, evidences of indebtedness, or other instruments, described in the indictment and received in evidence as any of the government exhibits, ranging from No. 1 to No. 66 inclusive, were "securities", as that term is defined in Section 2(1) of the Securities Act of 1933, Title 15 U.S.C. Section 77b(1).

To give any legalistic, or even common sense to Section 77b(1) Title 15 U.S.C., it is essential that the enumerated classes of instruments therein listed be read with the qualifying phrase as applicable to each thereof, "* * * *or in general, any interest or instrument commonly known as a 'security'* * * *"

With respect to the term "note", it should be observed that there are several definitions of "note" in words and phrases. Are they all to be construed as "securities" under the definition of 15 U.S.C., Section 77b?

Regardless as to the inclusion of "note" within the definition of a "security"—there is no Supreme Court case decided under the Securities Act of 1933 judicially holding that a note—a promissory note—whether negotiable or not—is a "security". On the other hand, we do have numerous decisions of the Courts of the United States and of the several states, holding that a short term note is not a "security."

See:

Courtland Specialty Co. v. Commissioner of Internal Revenue (2d Cir.), 60 F. (2d) 937;

Cecil B. De Mille Prod'ns v. Woolery (9th Cir.) 61 F. (2d) 45 (1932);

Lloyd-Smith v. Commissioner, 116 F. (2d) 642, 643 (1941);

Pinellas Ice & C. Co. v. Commissioner, 287 U.S. 462, 468, 77 L.ed. 428, 432.

In *L. & E. Stirn v. Commissioner* (2d Cir.), 107 F. (2d) 390 (1939) the Court held that short term notes, and even short term bonds, were not securities:

> "* * * The question is always whether bonds or notes which are exchanged represent an investment in the business of the transferee or are a practical substitute for a cash sale, as were the short term notes in Pinellas Ice & Cold Storage Co. v. Commissioner, 287 U.S. 462, 77 L.ed. 428,

the longest of which became due in four months, or the notes running from one to fourteen months in Courtland Specialty Co. v. Commissioner, 60 F. 2d 937, or the five year bonds in Worcester Salt Co. v. Commissioner, 75 F. 2d 251.

"In the case at bar the bonds not only had an average maturity of only two and one-half years but were all paid off within ten months. In our opinion they did not furnish a *continuity of interest* in the Concordia-Ballia Corporation sufficient to bring them within the meaning of *'securities' as that word has been construed in the United States Courts* * * *"

In a case, decided March 26, 1946, the 9th Circuit Court of Appeals held that an unsecured demand note was not a security under the Bankruptcy Act, the Court saying:

"* * * No case is cited holding that demand notes are securities within the meaning of Section 112(b) or similar provisions of earlier acts. We are of the view that the Tax Court was clearly correct in holding that the unsecured demand note which taxpayer exchanged in 1935 for the stock sold in 1940 was not a security within the meaning of Section 112(b)(3) or Section 112(1), supra, and accordingly did not carry over and become the basis of the stock * * *"

Pacific Public Service Co. v. Commissioner (9th Cir.) 154 F. (2d) 713, 714.

While we respect the significance and implications of the definition in the Securities Act of 1933 that the term "security" includes "note," yet, because of

the paucity or lack of interpretive decisions, holding a note to be a security under 77b or 77a of Title 15, U.S.C., we pose the question as to whether it was the intent of Congress to make every promissory note, regardless as to amount or term, given by one individual to another, a security, subject to all the regulatory and prohibitory provisions of the Securities Act of 1933.

In the matter of statutory construction of Section 77b, we focus attention on the words,

> "* * *, or, in general, any interest or instrument commonly known as a security, * * *"

and urge that these are words of limitation, restricting the general meaning of the word "note" in said section to such notes which at the time of the enactment of the Securities Act on May 27, 1933, were "commonly known as securities."

Sound and reliable authorities on statutory construction and interpretation support our contention. In *American Jurisprudence* we find the general rule succinctly set forth:

> "Thus, where several words in a statute are followed by a general expression or clause which is applicable as much to the first and other words as to the last, the natural construction of the language demands that the expression or clause be read as applicable to all * * *"
>
> 50 *Am. Jur.*, 258, § 269.

Can it be seriously contended that it was the legislative intent of the Congress of the United States in

enacting the Securities Act on May 27, 1933, to elevate to the dignity of a "security" an ordinary short-term promissory note, not involving a general offering to the public—but the every day note with which a man may pay a debt?

With respect to "evidence of indebtedness," which also falls within the definition of "security" in 15 U.S.C. §77b, we submit that an "I.O.U." or the common-place chit which a man may sign at the country club or at his restaurant is an evidence of indebtedness. As can be clearly seen, the logical follow-up of the literal meaning of the language in §77b(1) of Title 15 U.S.C., will result in a gross absurdity unless the qualifying clause therein contained—"* * *, or, in general, any interest or instrument commonly known as security,"—is made applicable to "note", "evidence of indebtedness," "investment contracts," and the other instruments mentioned in said section 77b(1).

It should be quite manifest that if we construe a "note" or "evidence of indebtedness"—as being a security, without further qualification, we are developing a situation where a simple "I.O.U." or signed meal ticket would consistently and logically fall within the definition of "security". Obviously, that was not the intent of the 73d Congress.

> "If we assume—as we must—that the lawmakers are conscientious, in event the statute is ambiguous and subject to several constructions, that one which operates in a harsh, unreasonable or absurd manner certainly does not represent the

legislative intent. The basic and underlying purpose of all legislation, at least in theory, is to promote justice. Because it must be presumed that the legislature has acted for the welfare of the people, the presumption that its enactments were not intended to operate other than for the best interest of the people is well founded.

As a result, the court should strive to avoid a construction which will tend to make the statute unjust, oppressive, unreasonable, absurd, mischievous, or contrary to the public interests."

Crawford on Statutory Construction, p. 288, §177 (in part).

It should be most clear in the instant case that to construe the terms "note" and "evidence of indebtedness," in their unqualified literal meaning, without the general qualifying clause "* * *, or, in general, any interest or instrument commonly known as a security * * *" would, in effect, impute to the 73d Congress the intent to effect an absurdity.

Legislative history of Securities Act.

To properly evaluate the object, purpose and intent, we may well look to the legislative history of the act,—the executive's message, committee reports, etc.

"In construing ambiguous statutes, courts have referred to messages of the executive to the legislature relative to the subject considered in the statute in litigation in order to ascertain the evils at which the statute was aimed * * *"

Sutherland on Statutory Construction, 3d ed., Vol. 2, p. 487, §5004.

When Franklin Delano Roosevelt was sworn in as President of the United States on March 4, 1933, the depression was at its worst—the unemployed numbered millions,—banks and businesses were crashing on every side. Stern corrective measures were needed, —probably more so than in wartime,—to save this Nation from economic ruin. The stock panic of October-November, 1929, brought about in great measure by the unscrupulous manipulations of wild-cat investment and the finance companies, precipitated a three-year depression and the country had learned its lesson.

At the instance of President Roosevelt, the Securities Act was drafted by the Honorable Samuel Untermyer of New York and forwarded to Congress with the following message, on March 29, 1933:

> "I recommend to the Congress legislation for Federal supervision of traffic in investment securities in interstate commerce.
>
> "In spite of many State statutes the public in the past has sustained severe losses through practices neither ethical nor honest on the part of many persons and corporations selling securities.
>
> "Of course, the Federal Government cannot and should not take any action which might be construed as approving or guaranteeing that newly issued securities are sound in the sense that their value will be maintained or that the properties which they represent will earn profit.
>
> "There is, however, an obligation on us that every issue of new securities to be sold in inter-

state commerce shall be accompanied by full publicity and information, and that no essentially important element attending the issue shall be concealed from the buying public.

"This proposal adds to the ancient rule of caveat emptor the further doctrine—'let the seller also beware.' It puts the burden of telling the whole truth on the seller. It should give impetus in honest dealing in securities and thereby bring back public confidence.

"What we seek is a return to a clearer understanding of the ancient truth that those who manage banks, corporations and other agencies handling or using other people's money are trustees acting for others.

"Franklin D. Roosevelt."

Here, we have the fundamental object of this legislation,—to protect the national economy and the investing public against the surreptitious and fraudulent machinations of irresponsible investment and banking enterprises. Certainly, it was not intended to hinder, hamper or regulate the individual debtor-creditor relationship or borrower-lender dealings,—not involving the public at large,—all of which are traditionally everyday occurrences.

"The Report of the standing committee in each house of the legislature which investigated the desirability of the statute under consideration is a much used source for determining the intent of the legislature, when it sets forth the committee's grounds for recommending passage of the proposed bill and, more important, its under-

standing of the nature and effect of the measure * * *"

Sutherland on Statutory Construction, Vol. 2, p. 489, § 5005.

After hearings on the proposed measure, on May 4, 1933, Congressman Sam Rayburn, Chairman of the House Committee on Interstate and Foreign Commerce, reported the measure (H.R. 5480), out of committee, accompanied by House Report No. 85, in which appear the following significant passages:

"The background of the President's message is only too familiar to everyone. During the post-war decade some 50 billions of new securities were floated in the United States. Fully one-half or $25,000,000,000 worth of securities floated during this period have been proved to be worthless * * *

"High-pressure salesmanship rather than careful counsel was the rule in this most dangerous of enterprises.

"Equally significant with these countless individual tragedies is the wastage that this irresponsible selling of securities has caused to the industry * * *

"Whatever may be the full catalogue of the forces that brought to pass the present depression, not least among these has been this wanton misdirection of the capital resources of the Nation* * *"

From the President's message and the report of the Chairman of the Committee on Interstate and Foreign

Commerce, it is quite evident that the purpose and intent of the 73d Congress in enacting the Securities Act of 1933 encompassed banks, corporations and other agencies, dealing in instruments which were then known as securities and that there is no justification for the extension of the scope of this enactment to "short-term notes", "evidences of indebtedness", and other instruments which at that time of enactment of the Securities Act of 1933 were not commonly known as "securities".

It should be kept in mind that all the notes admitted into evidence were short-term notes payable in not more than 90 days.

Add to this the fact that none of the witnesses testified that they were investing in securities and it is hard to rationalize the holdings of the lower Courts that we are dealing with "securities" in this case.

II. NOTES GIVEN IN EXCHANGE FOR MONEY TO BE BET ON "FIXED" SPORTING EVENTS DO NOT COME WITHIN THE PURVIEW OF THE SECURITIES ACT OF 1933.

It is not our purpose to make an extended argument under this point.

To say that a person loaning money to be bet on a fixed game and getting a note therefor is entitled to the protection of the Securities Act of 1933 is to extend the protection of that Act far beyond the intent of the Congress. The Act was designed to pro-

tect the investing public—not the gambling elements of our community.

> "The Court. Why do you say you loaned Llanos $1,200?
>
> The Witness. Because they told me that the volley ball game will be played by Llanos and if they won, if Llanos will win the game, why they will give me triple the amount which I loaned them." (R. 167.)

The mere citing of the type transaction involved would, it seems, answer the question as to whether we have a "securities act" violation here. The act cannot apply to all situations—and it certainly was not the intent of the Congress to lend protection to "investors" of this type.

III. THERE IS ABSOLUTELY NO EVIDENCE THAT PETITIONERS WERE ENGAGED IN THE SALE OF SECURITIES.

It is respectfully submitted that throughout the length and breadth of the trial, there is not the slightest bit of evidence that petitioners were engaged in dealing with securities in the sense that they were selling, offering or soliciting the sale of securities as charged in the indictment.

Yes, the evidence does establish that petitioners did borrow money from several persons and promised in turn to repay them.

But none of the witnesses, who, at the time of the trial testified that they had loaned money to Llanos,

said they were investing in anything or buying anything. In none of these cases were petitioners selling any securities. They were simply borrowing money.

Acojido testified that he made a loan to Llanos because Llanos was sick and needed the money. (R. 384.)

Joe Antenorcruz testified that Llanos paid him $3,000 for some tailored suits, which sum he loaned back to Llanos to pay taxes, receiving, later, a note for its repayment; that at the time he loaned the money to Llanos it was not an investment. (R. 489-520.)

The Philippine Farming Corporation loaned money to Llanos to help defray expenses of a trip (R. 93) and because they believed he would invest moneys in their company (R. 115). Is this a sale of securities, simply because a note or evidence of indebtedness was given the lender?

Yapit loaned money to be placed on a fixed volleyball game to get a triple return of his money. (R. 167.) Antipala put up money likewise to be bet on the game. (R. 205.) So did Trinidad (R. 280), Rabaino (R. 399), and Acosta (R. 568).

Others loaned the money for reasons of personal friendship or because they wanted to help out Llanos. (R. 245, 361, 362, 379, 392-3.)

"Q. Why did you loan them this money?

A. They told me that they need money to pay the tax in the Philippines.

Q. Did you think you were investing your money?

A. No.

Q. It was just a personal loan, was it not?

A. Yes.

Q. They didn't try to get you to buy any promissory note, did they?

A. No.

Q. So actually, you loaned them this money in order to help out didn't you?

A. Yes.

* * * * * * *

Q. So actually you loaned this money because Mr. Llanos was sick, did you not?

A. Yes."

(From the cross-examination of the witness Acojido by Mr. Greenstein, R. 392-393.)

ARE THESE DEALINGS IN, OR SALES OF SECURITIES? No!

Where, in the language of the indictment, is there any showing, or evidence, or proof of any purchase or investment and reinvestment of securities?

Where, in the language of the Securities Act of 1933, is there any showing, or evidence, or proof, of any sale or offer to sell any securities?

Where in the language of the first 13 counts of the indictment is there any conduct that constitutes "in the sale of securities"?

It is respectfully submitted that NOT ONLY IS THE EVIDENCE *INSUFFICIENT TO ESTABLISH ANY SALE OR DEALING* IN SECURITIES, *THERE IS ABSOLUTELY NO EVIDENCE WHATSOEVER THAT APPELLANTS*

WERE DEALING IN OR SELLING SECURITIES.

The district judge, in his findings of fact (R. 34-35), found as a fact that the instruments employed by appellants constituted securities as defined by the Securities Act of 1933; and that the conduct of appellants constituted a sale of those securities.

We respectfully urge for this Court's consideration that such findings by the trial judge, and affirmed by the Court of Appeals are clearly erroneous, unsupported by the law, and not supported by any evidence whatsoever.

IV. THERE IS NO EVIDENCE IN THE RECORD THAT ANY PERSON OR PERSONS INVESTED MONEY ON THE BASIS OF THE FALSE REPRESENTATIONS ALLEGED IN THE INDICTMENT.

We have already indicated, that with the exception of those persons who testified that they were loaning money to be bet on a fixed volleyball game, no person testified at the trial that he or she was buying anything or investing in any enterprise of Llanos or of any of the other petitioners; nor did they testify that they loaned any moneys upon the basis of the representations alleged in the indictment.

It would serve no purpose to outline the testimony of each witness; suffice it to say that with the exception of the investors interested in making a sure bet, all loans were made for an immediate lawful purpose:

either out of friendship for Llanos or other petitioners, or because they wanted to help him out.

We challenge the government to point to one witness who thought he was investing in anything.

For this reason we respectfully urge that there is no evidence in the record to sustain the judgments of conviction herein.

V. THE RULINGS ON THE ADMISSIBILITY OF THE EVIDENCE WERE ERRONEOUS.

A. The Court of Appeals is in error in holding that U. S. Exhibits Nos. 61, 62 and 63 were properly admitted in evidence.

During the course of the trial there was admitted into evidence the following:

U. S. Exhibit No. 61—consisting of 814 "mutual agreement" notes;

U. S. Exhibit No. 62—consisting of 248 promissory notes, payable in 90 days;

U. S. Exhibit No. 63—consisting of 50 promissory notes, payable in 60 days.

Mrs. Taganas, the prosecution's principal witness, testified that she seized these notes in the office of the Philippine Farming Corporation, and turned them over to the Better Business Bureau, who in turn, it is presumed, turned them over to the government. (R. 150-159.) There is absolutely no evidence that the notes were delivered to anyone, nor that any persons invested money on account thereof, nor loaned

any money as purports to be represented thereby. Counsel objected to their admission into evidence on the grounds:

a. That the same do not constitute "securities" within the meaning of the Securities Act of 1933;

b. That there was no evidence that the same were offered for sale or were sold;

c. That there was no evidence that any person referred to therein had invested any money;

d. That there was no evidence that any of the notes actually were delivered to any person or persons. (R. 1126-1131.)

Even if these documents be securities within the Act (which of course they are not) there was *no* evidence tying up these exhibits to any specific persons and hence their admission into evidence was erroneous.

B. The Court of Appeals is in error in holding in effect that the other documentary evidence was properly admitted in evidence.

Throughout the course of the trial, there was admitted into evidence, over objection, various exhibits. These the trial Court ruled to be "securities" within the meaning of the Securities Act of 1933. Without making a further argument on this point, we simply submit that not a single exhibit, of the hundreds of documents admitted into evidence, constitute a "security" within the meaning of the Securities Act of 1933, for the reasons urged above.

CONCLUSION.

1. The Court of Appeals has ruled in effect that any note or receipt or acknowledgment, regardless of form or term, is a security within the meaning of the Securities Act of 1933.

This presents an important question of federal criminal law which should be finally determined by this Court.

2. The Court of Appeals has ruled in effect that convictions in the instant case should be affirmed which are not supported by the evidence. This is such a departure from the accepted and usual course of American judicial proceedings and such a deprivation of our accepted notions of due process of law that this Court should grant a writ of certiorari and a reversal of judgment as prayed for.

Dated, Honolulu, Territory of Hawaii,
October 28, 1953.

Respectfully submitted,
HYMAN M. GREENSTEIN,
Attorney for Petitioners.

(Appendix Follows.)

Appendix

United States Court of Appeals
for the Ninth Circuit

No. 13,479 Sep. 4, 1953

Alejandro D. Llanos, Mrs. Salome V. Llanos, Also Known as Mrs. Alejandro D. Llanos, Honofre A. Andrada, Antonio L. Bacilio, Dionicio Flores, Aquilino S. Galiza and Rogilio Oducayen, Also Known as R. T. Oducayen,

Appellants,

vs.

United States of America,

Appellee.

Appeal from the United States District Court for the District of Hawaii.

Before: DENMAN, Chief Judge, and MATHES and LEMMON, District Judges.

DENMAN, Chief Judge:

This is a criminal appeal from a judgment of conviction by the United States District Court for the District of Hawaii. Trial was before the court without a jury.

Appellants raise three questions by this appeal: (1) whether the instruments involved were "securi-

ties" within the meaning of the Securities Act of 1933; (2) whether appellants were engaged in the "sale" of securities within the meaning of that Act; and (3) whether the trial court erred in receiving in evidence certain exhibits. A fourth question, concerning the validity of the indictment, was waived on oral argument.

Appellants were convicted on 12 of 13 counts of violating Section 17(a)(1) of the Securities Act of 1933, 15 U.S.C. §77a et seq., hereafter the Act; on 5 of 6 counts of mail fraud, 18 U.S.C. §1341; and on one count of conspiring to commit the foregoing crimes, 18 U.S.C. §341. The indictment alleged a scheme whereby the appellants would obtain money for their own use by making various false representations. Among these representations were the following: That the money would be bet on a "fixed" volleyball game; that a company that they represented had over $6,500,000 in the bank; and that certain defendants were officers in and majority stockholders of the Pollock-Stockton Shipbuilding Company.

(A) *The Securities:*

Appellants argue that they were not engaged in the sale of securities within the meaning and prohibition of the Securities Act of 1933 inasmuch as they were directly borrowing from individuals and were giving promissory notes in exchange. In essence, they argue that promissory notes are not securities within the meaning of Section 2(1) of the Act. That section provides in part as follows:

> "The term 'security' means any note * * * evidence of indebtedness, certificate of interest or participation in any profit sharing agreement * * * investment contract * * * or, in general, any interest or instrument commonly known as a security."

Appellants contend that the last clause of the above section, "any interest or instrument commonly known as a security" limits those which come before, and cite many cases which hold that promissory notes were not "securities" under other statutes. Pinellas Ice & C. Co. v. Commissioner, 287 U.S. 462, 468; Courtland Specialty Co. v. Commissioner, 60 F.2d 937 (Cir. 2); Cecil B. DeMille Productions v. Woolery, 61 F.2d 45 (Cir. 9); Union Land Ass'n v. Ussher, 174 Ore. 453. These cases involved the interpretation of the word "securities" as used in particular acts and did not involve the definition of "security" given in the above statute. In defining the word "security" in Section 2(1) of the Act, Congress intended to include all interstate transactions which were the legitimate subject of its regulation and the section should not be construed narrowly. Securities & Exchange Commission v. Joiner Leasing Corporation, 320 U.S. 344, 352; Securities & Exchange Commission v. Crude Oil Corp. of America, 93 F.2d 844, 846 (Cir. 7); Securities & Exchange Commission v. Universal Service Assn., 106 F.2d 232, 237 (Cir. 7), cert. denied, 308 U.S. 622.

The instruments involved, with some immaterial variations, read as follows:

"AGREEMENT

"THIS WILL CERTIFY THAT, I the undesigned ALEJANDRO D. LLANOS, of legal age, married, residing at 1839 Makiki Street, Honolulu T.H., borrowed from..... of.....THE SUM OF..... DOLLARS ($.....) Which I promise to pay on or before (60 or 90) days from today.

"IN WITNESS HEREOF, I set my hand to sign this.....day of....., ...

.....

ALEJANDRO L. LLANOS—borrower

Witness:

....."

This instrument is clearly an "evidence of indebtedness," and as such falls within the statutory definition of securities. United States v. Monjar, 137 F.2d 916, 920 (Cir. 3), cert. denied, 325 U.S. 859.

(B) *Sale of Securities:*

Appellants next argue that even assuming that the instruments were securities and the existence of a fraudulent scheme, the federal court did not have jurisdiction as to counts 1-13 because there is no evidence that the appellants were engaged in the "sale" of securities. The gravamen of their argument is that the giving of a promissory note or an evidence of indebtedness in exchange for a personal loan is not a sale. This contention is untentable. Section 2(3) of the Act, defines "sale" as including "* * * every * * * disposition of, attempt or offer to dispose of, or solicitation of an offer to buy, a security or interest

in a security for value * * *" The securities were disposed of for value in the transactions involved, and hence the transactions are covered by the broad definition of the statute. Bogy v. United States, 96 F.2d 734, 736 (Cir. 6), cert. denied, 305 U.S. 608.

(C) *Admission of Evidence:*

There were admitted in evidence Government Exhibits No. 61, consisting of 814 mutual agreement notes, No 62, consisting of 248 promissory notes payable in 90 days, and No. 63, consisting of 50 promissory notes payable in 60 days. Appellants claim that, in admitting these exhibits, the trial court erred on the following grounds: (1) that they did not constitute securities; (2) that there was no evidence that they were offered for sale or sold; (3) that there was no evidence that any person referred to therein had invested any money; (4) that there was no evidence that any of them were actually delivered to anybody, and (5) that all the notes represent money given to appellants for an immediate lawful purpose.

The first two grounds relied upon have already been considered and rejected. The remaining grounds are likewise without merit. The crime is devising a scheme and using the mails or methods of transportation or communication in interstate commerce to execute or attempt to execute the scheme. Whether the scheme is successful is irrelevant, as is the purpose for which the dupes may have surrendered their money. Bobbroff v. United States, 202 F.2d 389 (Cir. 9). These exhibits were not introduced to show the

success or failure of the scheme but as tending to show its scope and extent. For this purpose they were properly admitted. Suetter v. United States, 140 F.2d 103 (Cir. 9); Greenbaum v. United States, 80 F.2d 113 (Cir. 9).

The judgment of the district court is affirmed.

(Endorsed:) Opinion. Filed Sep. 4, 1953. Paul P. O'Brien, Clerk.

INDEX

	Page
Opinion below	1
Jurisdiction	1
Questions presented	2
Statute involved	2
Statement	4
Argument	9
Conclusion	15

CITATIONS

Cases:

Bogy v. *United States*, 96 F. 2d 734, certiorari denied, 305 U.S. 608	13
Cecil B. DeMille Prod'ns v. *Woolery*, 61 F. 2d 45	13
Securities and Exchange Commission v. *Crude Oil Corp. of America*, 93 F. 2d 844	12
Securities and Exchange Commission v. *W. J. Howey Co.*, 328 U.S. 293	11
Securities and Exchange Commission v. *C. M. Joiner Leasing Corp.*, 320 U.S. 344	10
Securities and Exchange Commission v. *Universal Service Ass'n*, 106 F. 2d 232, certiorari denied, 308 U.S. 622	12
Securities and Exchange Commission v. *Wickham*, 12 F. Supp. 245	12
Suetter v. *United States*, 140 F. 2d 103	14
United States v. *Carruthers*, 152 F. 2d 512, certiorari denied, 327 U.S. 787	11, 13
United States v. *Monjar*, 47 F. Supp. 421, affirmed, 147 F. 2d 916, certiorari denied, 325 U.S. 859	11, 13

Statutes:

Securities Act of 1933, 48 Stat. 74, as amended, 48 Stat. 905, 15 U.S.C. 77 *et seq.*:	
Section 2(1), 15 U.S.C. 77b(1)	3, 10
Section 2(3), 15 U.S.C. 77b(3)	3, 13
Section 3, 15 U.S.C. 77c	11
Section 3(a)(3), 15 U.S.C. 77c(a)(3)	12
Section 4, 15 U.S.C. 77d	11
Section 17(a), 15 U.S.C. 77q(a)	2, 4, 11, 12, 13
Section 17(c), 15 U.S.C. 77q(c)	11
18 U.S.C. 371	4
18 U.S.C. 1341	4

In the Supreme Court of the United States

OCTOBER TERM, 1953

No. 451

ALEJANDRO D. LLANOS, ET AL., PETITIONERS

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

OPINION BELOW

The opinion of the Court of Appeals (R. 1332-1337) is reported in 206 F. 2d 852. The District Court issued no formal opinion. Its findings of fact are contained in pages 34 to 37 of the record.

JURISDICTION

The judgment of the Court of Appeals was entered on September 4, 1953 (R. 1338). Time for filing a petition for a writ of certiorari was extended by orders of Mr. Justice Frankfurter and Mr. Justice Douglas to November 3, 1953, and the

petition was filed on November 2, 1953. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

1. Whether notes and other documents evidencing promissory obligations which petitioners issued to members of the public to obtain funds to be used purportedly to finance various alleged promotions and ventures of petitioners were "securities" within the meaning of the Securities Act of 1933.

2. Whether petitioners' solicitation of funds and issuance of promissory documents, as aforementioned, involved "sales" of securities within the meaning of the Securities Act.

3. Whether the trial court erred in admitting into evidence, to show the scope of the fraudulent scheme, promissory notes executed by one of the petitioners but not yet delivered.

STATUTE INVOLVED

The following are the relevant provisions of the Securities Act of 1933, 48 Stat. 74, as amended, 48 Stat. 905, 15 U.S.C. 77, *et seq.*

Section 17(a), 15 U.S.C. 77q(a):

> It shall be unlawful for any person in the sale of any securities by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly—
>
> (1) to employ any device, scheme, or artifice to defraud, or
>
> (2) to obtain money or property by means

of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

(3) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

Section 2(1), 15 U.S.C. 77b(1):

The term "security" means any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, or, in general, any interest or instrument commonly known as a "security", or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscibe to or purchase, any of the foregoing.

Section 2(3), 15 U.S.C. 77b(3):

The term "sale", "sell", "offer to sell", or "offer for sale" shall include every contract of sale or disposition of, attempt or offer to dispose of, or solicitation of an offer to buy, a security or interest in a security, for value; * * *.

STATEMENT

Petitioners were convicted of violations of the anti-fraud provisions of Section 17(a) of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. 77q(a), of the mail fraud statute, 18 U.S.C. 1341, and of the conspiracy statute, 18 U.S.C. 371, for a multi-million dollar fraudulent scheme which they executed during the years 1946 to 1951. As shown *infra,* the members of the public whom they victimized were largely unsophisticated small wage earners located in the Territory of Hawaii from whom they solicited and obtained these funds upon false representations that the money was needed, and would be used, to finance various promotions and ventures which they engaged in, or which they would engage in. They promised substantial returns on the moneys so obtained, and issued notes and other documents evidencing their promissory obligations to their victims. The obligations contracted admittedly were in excess of $3,000,000; and the total sum involved may have exceeded $6,000,000.

The United States District Court for the District of Hawaii, sitting without a jury, found petitioners guilty on a total of 12 out of 13 counts charging violations of Section 17(a) of the Securities Act, on 5 out of 6 counts charging violations of the mail fraud statute, and on one count charging a conspiracy to commit the foregoing offenses (R. 34-37). Petitioners were afterward sentenced to varying

terms of imprisonment and fines.[1] The various errors which they now assign, relating solely to the convictions on the Securities Act counts, were assigned in and rejected by the court below (R. 1332-1337).

The evidence adduced at the trial established without material contradiction the following: Petitioners first solicited and obtained funds allegedly for wagering on "fixed" volley ball games. Lenders were assured profits in multiples of their advances (R. 167, 175-176, 178-180, 187-189, 211-222, 277-280, 397-404, 558-561). The "fixed" games never took place, and the funds advanced were never returned.

Petitioners' scheme soon expanded from this simple beginning. As members of a fictitious business organization which they called "Llanos and Company", petitioners solicited in the Territory of Hawaii funds for various purported ventures and promotions, and issued or promised to issue notes and other written evidences of indebtedness for moneys received (GX [2] 2, 8, 10, 14, 20-25, 27-30, 34, 37, 38, 44, 45, 61-63). Money was obtained principally from small wage earners, such as plantation workers (R. 212, 381), mill workers (R. 297, 359), mechanics (R. 439, 521), and the like. Among other things, petitioners falsely represented that

[1] Sentences imposed ranged from five years probation to five years and five days imprisonment, and from $1,000 to $10,000 in fines (R. 42-55).

[2] Government exhibits. These exhibits are not contained in the printed Transcript of Record which has been filed by petitioners in this Court.

petitioner Alejandro D. Llanos ("Llanos") was a financier and industrialist who had millions of dollars in the Philippines or on the Mainland (R. 119-120, 127-132, 189-191, 236, 284, 298-299, 381-382, 406-407; GX 19, 40C, 40BB, 43, 57); that Llanos was a creditor of a large shipbuilding company in California (Pollock-Stockton Shipbuilding Company) in the amount of $6,000,000; and that funds were needed to defray travel expenses in connection with efforts to collect this "debt" from the shipbuilding company (R. 81-88, 297-298, 406-407, 520-526, 569-575). At a later stage in the scheme, it was represented by petitioners and their associates that "Llanos and Company" had a fund of $6,500,000 on deposit with a Hawaii bank, which fund would be distributed to the persons from whom money had been obtained (R. 135-140, 195-198, 281, 293-294, 412-413, 500, 561-562). These persons were requested to sign documents which, it was represented, were certificates of membership in "Llanos and Company", and which would entitle them to participate in the distribution of the money in the trust fund. However, no such fund ever existed (GX 9, 16, 59A-C; R. 195-197, 280-282, 291-294, 386-390, 412-413, 1113-1115).

Petitioners also falsely represented that funds obtained would be used to establish new business enterprises, including a proposed Bank of Manila, and, in that connection, that additional money was needed to meet necessary expenses for travel to the Philippines (R. 495, 531-532, 537-538, 540-542). Late in the year 1948 petitioners broadcast and

otherwise publicized a contemplated visit by Llanos to Manila to be made at the invitation of the President of the Philippines who allegedly was seeking Llanos' assistance in establishing industries there. It was represented that persons who advanced moneys to "Llanos and Company" would be paid off by a bank in the Philippines (GX 1; R. 342-344; GX 19; R. 345-348). The promoters of the Bank of Manila fell out with Llanos when he refused to make good his promises to finance the bank (R. 1189-1190; GX 40Q).

Investigations of "Llanos and Company" were commenced by the Territorial Treasurer of Hawaii (also ex-officio Securities Commissioner, R. 883) and the Honolulu Better Business Bureau. Thereafter in August, 1950, petitioners, taking the initiative, requested the Territorial Treasurer to assume supervision of the distribution of the sum of $6,000,000 to members of the public who had advanced funds to "Llanos and Company" (R. 883-888). They then represented that the $6,000,000 were in the Philippines, and would arrive in Hawaii in several weeks. No evidence was ever adduced to show the existence of such a fund (R. 891-892). Subsequently, in response to requests of the Territorial Treasurer, they submitted lists showing obligations of "Llanos and Company" to over 450 persons in the amount of $3,318,802 (GX 52-53). Evidence adduced at the trial established that portions of the information submitted in these lists were false (R. 550-553, 911-913).

Members of the public from whom petitioners ob-

tained funds, as aforementioned, were given promissory notes payable in sixty days, ninety days, or "upon mutual agreement" (R. 237, 383, 419-420, 524, 543-544). Originals or duplicates of promissory notes signed by Llanos but not yet delivered were also admitted into evidence. There were $4,807,549 of "mutual agreement" notes payable to 814 persons (GX 61), $1,251,015 of ninety-day notes payable to 248 persons (GX 62), and $377,500 of sixty-day notes payable to 50 persons (GX 63). The obligations evidenced by these notes total $6,436,064, and comprehend most of the obligations shown on the various lists submitted to the Territorial Treasurer, as well as those of seven of the sixteen witnesses who testified at the trial (R. 1126).

At least seven of the sixteen investor witnesses who testified stated that one or more of the misrepresentations referred to were made to them in order to induce the advances (R. 235-241, 381-382, 384-385, 418-423, 492-498, 520-523, 540-547, 569-571).[3]

While the scheme to defraud was accomplished largely within the Territory of Hawaii, its ramifications, as noted above, extended to the Philippines and the mainland of the United States, and necessitated not only petitioners' use of the mails but also their extensive use of facilities of interstate and foreign commerce in furtherance of the scheme.[4]

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[3] Cf. petitioners' allegation (Pet. 6) that there is not "a scintilla of evidence that any of the representations were employed in furtherance of said scheme".

[4] Seven of the Securities Act counts were based on mailings of letters and promissory notes to victims, letters between

ARGUMENT

Petitioners' contentions relate solely to the Securities Act counts, the applicable provisions of which are clear and unambiguous.[5] The decision below is correct, and presents no conflict or inconsistency with that of any other court.

1. The notes and other documents evidencing petitioners' promissory obligations were clearly "securities" within the meaning of the Securities Act. The typical document, of which the court below took cognizance, read as follows (R. 1335):

> Agreement
>
> This Will Certify That, I the undersigned Alejandro D. Llanos, of legal age, married, residing at 1839 Makiki Street, Honolulu, T. H., borrowed from ..... of ..... THE SUM OF.....DOLLARS ($.....) Which I promise to pay on or before (60 or 90) days from today.
>
> In Witness Hereof, I set my hand to sign this.....day of ....., ...
>
> .....
>
> Alejandro D. Llanos—borrower
>
> Witness:
>
> .....

various petitioners in furtherance of the fraudulent scheme, and a letter enclosing money to petitioners in response to their solicitation. The five remaining Securities Act counts were based on uses of facilities of transportation, and radio broadcasts, in interstate and foreign commerce.

[5] On the conspiracy and mail fraud counts, which petitioners do not challenge, the sentences for the most part run concurrently with each other and with a sentence on a Securities Act count.

Section 2(1) of the Act expressly defines a "security" to include any "note", "evidence of indebtedness", or "investment contract". The court below properly rejected petitioners' curious contentions that this clearly applicable statutory language should be disregarded; that the Court's consideration should be confined to the later disjunctive clause in the statutory definition—"or, in general, any interest or instrument commonly known as a 'security' "; and that the latter clause should be construed to exclude the documents which petitioners issued and which they sought to characterize as mere receipts for disconnected personal loans having no relationship to any purported venture or business promotion.

As this Court observed in *S.E.C.* v. *C. M. Joiner Leasing Corp.*, 320 U.S. 344, at 350-351, however, the purpose of the clause—"in general, any interest or instrument commonly known as a 'security' "—was to broaden the coverage of the statute beyond the common types of securities, such as notes, which are included in the earlier portion of the statutory definition. The Act was thus rendered applicable to a wide variety of security arrangements which might not be comprehended by the more standardized terms referred to in the earlier portion of Section 2(1). The coverage of the statute as respects the more usual documents and security arrangements, of course, was not intended to be infringed. The documents issued by these petitioners were clearly within the earlier categories—"notes" or "evidences of indebtedness"—and, as

such, were plainly "securities" within the meaning of the statute.[6]

While some types of securities and securities transactions are expressly exempted from the registration requirements of the Act (see Sections 3, 4, 15 U.S.C. 77c, 77d), there are no exemptions from the anti-fraud provisions of Section 17(a) here in question. See Section 17(c), 15 U.S.C. 77q(c). To curb fraudulent transactions, Congress made it clear that the broad statutory concept of a "security" is to be given full scope in applying Section 17(a) of the Act.

The decision below breaks no new ground. In *United States* v. *Monjar*, 47 F. Supp. 421 (D. Del.), affirmed, 147 F. 2d 916 (C.A. 3), certiorari denied, 325 U.S. 859, receipts for personal loans made to the principal defendant by members of a fraternal organization allegedly devoted to the propagation of ethics were held to be "evidences of indebtedness" and "investment contracts" within the coverage of the anti-fraud provisions of Section 17(a). A somewhat similar scheme was involved in *United States* v. *Carruthers*, 152 F. 2d 512 (C.A. 7), certiorari denied, 327 U.S. 787, where personal loans obtained from members of a pseudo-religious organi-

[6] Petitioners do not deny that the documents are "notes" (Pet. 18, 24). The court below characterized them as "evidences of indebtedness". 206 F. 2d, at 854 (R. 1335). Arguably, they also are "investment contracts" within this Court's rationale in *S.E.C.* v. *W. J. Howey Co.*, 328 U.S. 293, 298. In any event, they are not simple "I.O.U.'s" or chits, and petitioners' attempted *reductio ad absurdum* (Pet. 19) is an idle exercise in semantics. This is not to imply that a scheme to defraud by use of I.O.U.'s or chits could not contravene the anti-fraud provisions of the Securities Act.

zation by the defendant organizer were held to involve sales of securities subject to Section 17(a). In *S.E.C.* v. *Universal Service Ass'n*, 106 F. 2d 232 (C.A. 7), certiorari denied, 308 U.S. 622, sales of membership applications in a pseudo-religious and economic association, in which members were to receive benefits from certain agricultural activities in proportion to their contributions, were also held to fall within the purview of Section 17(a).[7]

Five of the six decisions relied upon by petitioners (Pet. 16-17) to support their contention that short-term notes are not securities involved constructions of certain provisions of the federal revenue laws, which do not define the term "security" and which present statutory considerations wholly irrelevant here. Moreover, while some of petitioners' notes purported to be short-term obligations, it appears that petitioners contemplated making the majority payable upon "mutual agreement" (GX 65)—prima facie not short term, but illusory obligations of a deceptive character.[8] Under Section 17(a), of course, it is immaterial whether the securities are short- or long-term. The registration provisions of the statute are inapplicable to certain short-term obligations. See Section 3(a)(3), 15

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[7] See, also, *S.E.C.* v. *Crude Oil Corp. of America*, 93 F. 2d 844 (C.A. 7), where a so-called "Bill of Sale and Delivery Contract" was held to be a security within the statutory definition; *S.E.C.* v. *Wickham*, 12 F. Supp. 245, 248 (D. Minn.), to the effect that the pooling of funds to bet on horse races, in return for certificates promising participations in the winnings, would involve the sale of "investment contracts".

[8] The evidence indicates that it was also planned to switch various persons who already held 60- or 90-day obligations to "mutual agreement" notes (R. 1126).

U.S.C. 77c(a)(3). As previously indicated, however, there is no such exemption from the anti-fraud provisions of Section 17(a).[9]

2. Petitioners' additional contention that they have not engaged in the "sale" of securities is equally without substance. The Court of Appeals (R. 1335-1336) properly pointed to the broad definition of "sale" in Section 2(3) of the Act (p. 3, *supra*) which includes any disposition of a security for value regardless of the particular form of the transaction. See *Bogy* v. *United States,* 96 F. 2d 734, 736 (C.A. 6), certiorari denied, 305 U.S. 608. In the *Monjar* case, (*supra,* p. 11) the court had no difficulty in concluding that the personal loans there obtained involved sales of securities within the meaning of the Act. To the same effect see *United States* v. *Carruthers* (*supra,* p. 11). Petitioners' attempt to characterize the transactions involved as mere disconnected individual loans unrelated to any purported venture or enterprise for which public funds were sought is amply refuted by the evidence summarized above.

3. Petitioners' contention that the trial court sitting without a jury erred in admitting into evidence certain exhibits, including three sets of original and

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[9] In the remaining case cited by petitioners, *Cecil B. DeMille Prod'ns* v. *Woolery,* 61 F. 2d 45 (C.A. 9), the court held that short-term notes purporting to assign certain overriding oil and gas royalty interests were void because no state permit had been obtained for such assignments. The court recognized that promissory notes were clearly securities under the California Corporate Securities Act, but observed that under that statute an ordinary note not offered to the public or to an underwriter for resale was not "such a security as to require a permit."

duplicate notes signed by petitioner Llanos (GX 61-63) is also without merit.

The notes had been prepared for use in petitioners' fraudulent scheme. There was ample evidence that petitioners had solicited the obligees named therein. Thus, the obligees on these notes included seven of the investor witnesses who testified at the trial (R. 1126), and the notes largely corresponded with the list of obligations filed by petitioners with the Territorial Treasurer (GX 52, 53). The notes were obtained by a witness who had observed their preparation by the petitioners (R. 149-153); and their preparation was referred to in a letter sent by one of the petitioners (R. 1126). The exhibits were admitted to show the scope and extent of the scheme to defraud, as to which great latitude is allowed in the introduction of evidence. *Suetter* v. *United States,* 140 F. 2d 103, 107 (C.A. 9). Clearly, therefore, their admission involved no error on the part of the trial judge.

CONCLUSION

The judgment below is correct and presents no question warranting further review by this Court. The petition for a writ of certiorari should be denied.

Respectfully submitted,

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